



Department of Defense INSTRUCTION

NUMBER 5010.40

August 28, 1996

USD(C)

SUBJECT: Management Control (MC) Program Procedures

- References:
- (a) [DoD Directive 5010.38](#), "Management Control Program,"
 - (b) Section 3512 of title 31, United States Code (also referred to as Public Law 97-255 and the Federal Managers' Financial Integrity Act (FMFIA) of 1982)
 - (c) Office of Management and Budget (OMB) Circular No. A-123 (Revised), "Management Accountability and Control," June 21, 1995
 - (d) Office of Management and Budget Circular A-127 (Revised), "Financial Management Systems," July 23, 1993
 - (e) through (s), see enclosure 1

1. PURPOSE

This Instruction:

1.1. Implements policy, assigns responsibilities, and prescribes procedures under reference (a) for implementation and use of MC programs.

1.2. Implements references (b) and (c).

2. APPLICABILITY

This Instruction applies to the Office of the Secretary of Defense (OSD), the Military Departments, the Chairman of the Joint Chiefs of Staff, the Unified Combatant Commands, the Inspector General of the Department of Defense (IG, DoD), the Uniformed Services University of the Health Sciences, the Defense Agencies and DoD Field Activities (hereafter referred to collectively as "the DoD Components").

3. POLICY

It is DoD policy under reference (a) that a MC Program be established to review, evaluate and report on the effectiveness of MCs in the Department of Defense, and to take appropriate action to identify and correct ineffective MCs and to establish MCs when warranted.

4. RESPONSIBILITIES

4.1. The Under Secretary of Defense (Comptroller) shall monitor compliance with this Instruction and DoD Directive 5010.38 (reference (a)).

4.2. The Under Secretaries and Assistant Secretaries of Defense, as Heads of Office of the Secretary of Defense Functional Elements, shall identify systemic MC weaknesses in their functional areas that should be reported by a DoD Component, and review the reported actions of the DoD Components that pertain to their area of functional responsibility (reference (a), subsection 5.3.).

4.3. The Heads of the DoD Components shall establish and maintain their MC Program and ensure compliance with this Instruction and reference (a).

5. PROCEDURES

5.1. Each DoD Component shall develop a MC Program that shall include the following elements:

5.1.1. Establish a MC process. After management has developed and established MCs, as required by reference (a) and 31 U.S.C. 3512 (reference (b)), a MC process shall be established that will conclude with the reporting of management's opinion about the effectiveness of its MCs. This process includes, as appropriate: assigning responsibilities and providing personnel for planning, directing and executing the MC Program; developing internal reporting and tracking capabilities; ensuring periodic evaluations of MCs ("continuously monitor..." Circular A-123 (reference (c))); and maintaining appropriate documentation.

5.1.2. Segment along organizational, functional, or programmatic lines into assessable units (or appropriate alternative methodology providing equivalent results while identifying vital controls). Each DoD Component shall establish and maintain

an inventory of its assessable units (or alternative under paragraph 5.1.1., above. This inventory should be an aspect of every DoD Component's Management Control Plan (MCP), under paragraph I., subparagraph "Agency Implementation" in reference (c), and should be reviewed and updated annually. All elements of each DoD Component should be contained in one or more assessable units (or equivalent). The MCP shall be linked to activities conducted under OMB Circulars A-127 and A-130 (references (d) and (e)).

5.1.3. Evaluate the effectiveness of its MCs through a process or mechanism determined by each DoD Component to meet its specific requirements. These evaluations shall be consistent with the guidance contained in references (a) and (c). This process should maximize the use of already existing management evaluation data and, to the greatest extent possible, minimize the creation of processes solely for the execution of this program.

5.1.4. Identify report, and correct MC weaknesses. Each DoD Component shall establish and maintain a process that identifies, reports and corrects MC weaknesses, as follows:

5.1.4.1. Identification. The DoD Components may identify weaknesses in their MC through a variety of objective sources. These sources should include but not be limited to: audits, inspections, investigations, management assessments, creditable information of nongovernmental origin, staff meetings, and MC evaluations.

5.1.4.2. Reporting. Weaknesses in MCs should be reported if they are deemed to be material. Materiality is defined in enclosure 3. Furthermore, OSD functional proponents shall identify systemic control weaknesses in a manner consistent with DoD Directive 5010.38 (reference (a)), subsection 5. 3.

5.1.4.3. Correction. Circular A-123 (reference (c)) requires DoD Component managers to take timely and effective actions to correct weaknesses in their MCs. Correcting MC weaknesses is an integral part of management accountability. Tracking corrective actions should be commensurate with the severity of the weakness. Corrective action plans should be developed for all material weaknesses, and progress in implementing these plans should be periodically assessed and reported to management. A determination that a material weakness has been corrected should be made only when sufficient actions have been taken and the desired results achieved. The last milestone in each corrective action plan shall include correction validation.

5.1.5. Senior Management Council. Reference (c) encourages use of senior management councils as a forum for assessing and monitoring MC Program efforts. The DoD Components are encouraged to establish their own senior management council.

5.1.6. Annual Statement of Assurance. The DoD Components shall submit an annual statement of assurance based on a general assessment of the effectiveness of their MCs. This statement shall also include material weaknesses and the plan to correct them, and be consistent with annual Under Secretary of Defense (Comptroller) (USD(C)) guidance about the content and structure of the statement. The statement must be signed by the Head of the DoD Component or the principal deputy, and submitted to the Secretary of Defense by November 15 of each year or an alternative date if required by the annual guidance.

6. INFORMATION REQUIREMENTS

6.1. Under 31 U.S.C. 3512 (reference (b)), the Secretary of Defense is required to submit a statement to the President and the Congress addressing whether the Department of Defense has established an MC Program consistent with the requirements of reference (c), and whether this program provides reasonable assurance that it meets the Federal Managers' Financial Integrity Act objectives under reference (b), as outlined in reference (a), subsections 4.1. through 4.5. The statement may be subjected to a review by the Senior Financial Management Oversight Council (reference (f)) before it is provided to the Secretary of Defense.

6.2. The required DoD Component annual statement of assurance shall be based on a general assessment of MCs conducted in accordance with foregoing guidance and shall consider MC weaknesses disclosed by all sources, including: management studies; DoD Component audits, inspections, investigations, or internal review reports; and IG, DoD, and General Accounting Office reports. The statement, signed by the DoD Component Head, or principal deputy, shall be submitted to the Secretary of Defense by November 15 of each year in the format provided by annual USD(C) guidance. Additional copies of the statement and accompanying reports shall be furnished to the USD(C); the quantity of this submission will be contained in the annual guidance provided by the Office of the USD(C) (OUSD(C)). The submission shall be based on, but not limited to, the requirements of the OMB Memorandum (reference (g)), as modified by the OUSD(C) and include the following:

6.2.1. A cover memorandum, signed by the Head of the DoD Component or the principal deputy, providing the organization's senior management assessment as to whether there is reasonable assurance that the organization's MCs are in place and operating effectively. Under OMB Circular A-123 (reference (c)), this statement of assurance must take one of three forms:

6.2.1.1. An unqualified statement of assurance ("I have reasonable assurance that..."). Each unqualified statement must have a firm basis for that position, which will be summarized in the cover memorandum. A more extensive explanation of that position must be clearly articulated in the body of the statement.

6.2.1.2. A qualified statement of assurance ("I have reasonable assurance that ... except for..."). The material weaknesses in MCs that preclude an unqualified statement should be cited in the cover memorandum.

6.2.1.3. A negative statement ("I do not have reasonable assurance that ..."). The basis for this position should be summarized in the cover memorandum.

6.2.2. A description of how the DoD Component evaluation was conducted and a statement, based on that evaluation, on the reasonable assurance achieved.

6.2.3. Uncorrected material weaknesses (current year and prior year disclosures) and the specific plans and schedules for correction. The specific plans and schedules shall include the actions that will correct a weakness. Although the actions that should correct the weakness may be in development, the weaknesses should be reported and the tentative actions should be disclosed in a manner consistent with management's current perceptions.

6.2.4. Material weaknesses corrected in the current year (current year disclosures and prior year disclosures corrected in the current year) and a description of the actions taken. Each corrected material weakness will include, as the last milestone, a validation milestone which evaluates and certifies the effectiveness of the corrective action.

6.2.5. If applicable, a report on the status of accounting systems' conformance with Circular A-127 and DoD 7000.14-R (references (h) and (i)) and Comptroller General accounting principles, standards, and related requirements. (See DoD Directive 5010.38, subsection 4.5 (reference (a))). If this requirement is not applicable, enclose a page with the notation "not applicable."

6.2.6. Other disclosures or special presentations, including significant MC accomplishments, that may arise from time-to-time due to specific requests or inquiries.

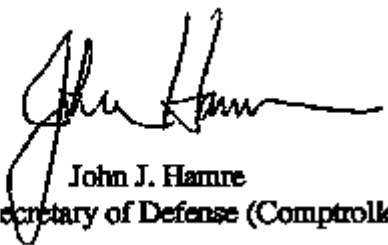
6.3. Reports on the MC Program have been assigned Report Control Symbol DD-COMP (AR) 1618.

6.4. The Commanders of the Unified Combatant Commands shall submit annual reports to the Secretary of Defense, and information copies to the Chairman of the Joint Chiefs of Staff, and the USD(C).

6.5. All information requirements shall be consistent with procedures established in DoD Directives 8320.1 and 8910.1 and DoD Instruction 7750.7 (references (j) through (l)).

7. EFFECTIVE DATE

This Instruction is effective immediately.



John J. Hamre
Under Secretary of Defense (Comptroller)

Enclosures - 5

1. References
2. Definitions and Applicable Concepts
3. Guidance in Applying the Definition of Material Weakness
4. MC Reporting Categories
5. Resources for DoD Component MC Program Development

E1. ENCLOSURE 1

REFERENCES, continued

- (e) Office of Management and Budget Circular A-130 (Revised), "Management of Federal Information Resources," July 15, 1994
- (f) Deputy Secretary of Defense Memorandum, "Establishment of the Senior Financial Management Oversight Council," July 14, 1993
- (g) Office of Management and Budget Memorandum, "Year-End Internal Control Report," (current edition)
- (h) Office of Management and Budget Circular A-127 (Revised), "Financial Management Systems," July 23, 1993
- (i) DoD 7000.14-R, "DoD Financial Management Regulation," authorized by DoD Instruction 7000.14, November 15, 1992
- (j) [DoD Directive 8320.1](#), "DoD Data Administration," September 26, 1991
- (k) DoD Directive 8910.1, "Management and Control of Information Requirements," June 11, 1993
- (l) DoD Instruction 7750.7, "DoD Forms Management Program," May 31, 1990
- (m) General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies, "Standards for Internal Control in the Federal Government," October 1984
- (n) Statements of Federal Financial Accounting Standards (through 1996 and as issued by Office of Management and Budget)
- (o) General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies, "Title II Accounting," May 1988
- (p) Sections 3512 and 3515 of title 31, United States Code, as amended by the Government Management Reform Act of 1994, Public Law 103-356, January 25, 1994
- (q) DoD Directive 5000.1, "Defense Acquisition," March 15, 1996
- (r) DoD 7740.1-G, "Department of Defense ADP Internal Control Guidelines," July 1988, authorized by DoD Directive 7740.1, "DoD Information Resources Management Program," June 20, 1983
- (s) Office of Management and Budget Circular A-76 (Revised), "Performance of Commercial Activities," March 29, 1995

E2. ENCLOSURE 2

DEFINITIONS AND OTHER APPLICABLE CONCEPTS

E2.1.1. Assessable Unit. Any organizational functional (see enclosure 4), programmatic or other applicable subdivision, capable of being evaluated by MC assessment procedures. An assessable unit should be a subdivision of an organization that ensures a reasonable level of span of MC to allow for adequate control analysis. Assessable units usually have specific MCs that are applicable to their responsibilities, as well as other guidance that has broad organizational application. Occasionally, some organizational units (field activities or offices) will have fundamentally the same MC structure but be considered individual assessable units because of geographic separation. Assessable units are responsible for conducting MC evaluations.

E2.1.2. Comptroller General Standards. The twelve standards issued by the Comptroller General to be applied by all managers in the Federal Government in developing, establishing and maintaining MCs under GAO Standards of Internal Control (reference (m)).

E2.1.3. Control Objective. A specific aim, goal, condition, or level of control established by a manager for an assessable unit that provides reasonable assurance that the resources allocated to that activity are safeguarded or protected adequately against waste, fraud, or mismanagement, and that organizational, operational or administrative objectives are accomplished. Control objectives are not absolutes. Limiting factors such as budget constraints, statutory and regulatory restrictions, staff limitations, and cost-benefits of each control technique are to be considered in determining desired control objectives.

E2.1.4. Control Technique. Any form of organization procedure or document flow that is being relied on to accomplish a control objective.

E2.1.5. Documentation. Documentation for MC systems includes the following two types of written materials:

E2.1.5.1. Review Documentation. Shows the type and scope of review, the responsible official, the pertinent dates and facts, the key findings, and the recommended corrective actions. Documentation is adequate if the information is understandable to a reasonably knowledgeable reviewer.

E2.1.5.2. System Documentation. Includes policies and procedures, organizational charts, manuals, flow charts, and related written and graphic materials necessary to describe organizational structure, operating procedures, and administrative practices; and to communicate responsibilities and authorities for accomplishing programs and activities. Documentation of MC activities is required to the extent needed by management to control their operations effectively and may be generated by activities not specifically established to meet the requirements of the MC Program. Documentation of MCs is mandated by OMB Circular A-123 (reference (c)).

E2.1.6. DoD Functional Proponent. The DoD staff Principal responsible for policy and oversight of a particular functional area.

E2.1.7. Event Cycle. A series of steps taken to get something done. Any program or function performed within an organization contains such processes used to start and perform related activities, create necessary documentation, and gather and report related data.

E2.1.8. General Control Environment. The environment in which an event cycle operates, including management attitude; organization structure; personnel competence; delegation of authority and responsibility; policies, procedures, budgeting, and reporting practices; and organizational checks and balances.

E2.1.9. Management Control (MC). Replaces the term Internal Management Control (IMC). IMC was used in earlier editions of this guidance, and has found common usage throughout the DoD community. IMC is replaced in this document by the term “management control.” MC is a system of guidance, instructions, regulations, procedures, rules or other organization instructions intended to determine the methods to be employed to carry out mission or operational actions or objectives, and ensure that programs achieve intended results. This plan of organization, methods, and procedures adopted by management provides reasonable assurance that the objectives of 31 U.S.C. 3512 (reference (b)) are met. MCs support the effectiveness and the integrity of every step of a process and provide feedback to management; they are the rules, procedures, techniques and devices employed by managers to ensure that what should occur in their daily operations does occur on a continuing basis. Under OMB Circular A-123 (reference (c)), “...management controls should be an integral part of the entire cycle of planning, budgeting, management, accounting, and auditing. They should support the effectiveness and the integrity of every step of the process and provide continual feedback to management.” See “Vital Management Controls,” item

E2.1.24., below.

E2.1.10. Management Control (MC) Evaluation. A documented evaluation of the MCs of an assessable unit to determine whether adequate control techniques exist and are implemented to achieve cost-effective compliance with reference (b). MC evaluations are of the following two types:

E2.1.10.1. Alternative Management Control Review (AMCR). A process to determine that the control techniques are operating properly or a process developed for other organizational purposes that provides adequate information on the effectiveness of control techniques. This type of process may utilize computer security reviews; quality assessments, financial systems reviews; IG, GAO or DoD Component audits, inspections, or investigations; internal review studies; and management and/or consulting reviews. Such alternative reviews must assist in determining overall compliance, and, whenever possible, include testing of controls and documentation. The process employed should have some reasonable testing aspect associated with it.

E2.1.10.2. Management Control Review (MCR). Detailed examination of a system of MCs in an assessable unit using the methodology specific to that purpose. Enclosure 5 provides an inventory of materials that may assist management in the development of sound reviews. Reviews should be conducted only when a reliable alternative source of information is not available and the review produces otherwise unavailable written materials documenting what was done and what was found. (See definition E2.1.5., above.) The process employed should have some reasonable cost effective testing aspect associated with it.

E2.1.11. Management Control (MC) Guidelines. Enclosure 5 presents suggested approaches that may be adapted to meet DoD Component needs. Any adaptation should remain in compliance with OMB Circular No. A-123 (reference (c)).

E2.1.12. Management Control Plan (MCP). A brief, written plan (updated as necessary) that indicates the number of scheduled and accomplished MC evaluations, the identity of DoD Component assessable units and progress toward accomplishment of annual program requirements. The data contained in, or summarized by, the MCP shall be consistent with information reported in the DoD Component's Annual Statement of Assurance. The MCP need not be lengthy and any format may be used, so long as it addresses MC evaluations throughout the organization and conveys, with a reasonable certainty, the knowledge that the objective has been accomplished.

E2.1.13. Management Control (MC) Program. The full scope of management

responsibility as defined by DoD Directive 5010.38 (reference (a)) and this Instruction. That responsibility extends from management's development of effective MCs, through their evaluation and correction of deficiencies, to the reporting requirements of this guidance.

E2.1.14. Management Control (MC) Program Evaluations. The formal effort of an organization to ensure that MC systems are working effectively, including the reporting of findings and conclusions to senior management. The DoD Components are encouraged to prevent this process from becoming an isolated exercise outside the daily operating and management activities. Consolidating these evaluations with other evaluative activities is encouraged.

E2.1.15. Management Control (MC) Standards. Reference (c) is the most pertinent yardstick for this factor. However, OMB Memorandum, Circular A-127, DoD 7000.14-R, Statements of Federal Financial Accounting Standards, GAO Title II Accounting, and Sections 3512 and 3515 of 31 U.S. C. (references (g), (h), (i), (n), (o) and (p)) should also play a significant role in the development of MC standards, when applicable.

E2.1.16. Management Control (MC) System. The sum of a DoD Component's methods and measures used to achieve the MC objectives - both the controls and the evaluations of those controls. It is not a separate system, but an integral part of the systems used to operate programs and functions.

E2.1.17. Managers with Significant Management Control (MC) Responsibilities. This includes top-level managers, down through operational managers of all programs and activities, in which funds, property, and other assets must be safeguarded against fraud, waste, or mismanagement; and in which operations and resources must be managed efficiently and effectively. While all managers are expected to comply with annual MC evaluation requirements, the DoD Components may not require full participation of all managers to adequately develop conclusions regarding MCs or to adequately produce year-end reports.

E2.1.18. Material Weakness. Specific instances of noncompliance with 31 U.S.C. 3512 (reference (b)) of such sufficient importance to warrant reporting of the control deficiency to the next higher level of management. Such weaknesses significantly impair or may impair the fulfillment of a DoD Component's mission or operational objective; deprive the public of needed services; violate statutory or regulatory requirements; significantly weaken safeguards against fraud, waste, or mismanagement of funds, property, or other assets; or result in a conflict of interest.

(See enclosure 3 for further information.) MC weaknesses should be identified using one of the 15 functional reporting categories. (See enclosure 4.)

E2.1.19. Reasonable Assurance. A judgment by a DoD Component Head based upon all available information that DoD Component systems of MCs are operating as intended by reference (b).

E2.1.20. Risk. The probable or potential adverse effects from inadequate MCs that may result in the loss of Government resources or cause an agency to fail to accomplish significant mission objectives through fraud, error, or mismanagement.

E2.1.21. Senior Management Council. A committee or board of senior functional officials convened to advise the head of an organization on MC matters, to include the identification of MC weaknesses that merit reporting as material weaknesses. The responsibilities of the Council need not be devoted exclusively to oversight of MCs.

E2.1.22. Systemic Control Weakness. A systemic control weakness is one that is recognized by an affected OSD functional proponent to be occurring in several DoD Components because of the Components' ineffective implementation of the OSD functional proponent's guidance and/or because the OSD functional proponent's guidance did not adequately identify or define the internal controls required.

E2.1.23. Testing. Procedures to determine through observation, examination, verification, sampling, or other procedures whether MC systems are working as intended (in accordance with management's MC objectives).

E2.1.24. Vital Management Controls (MCs). These are the MCs (see item E2.1.9., above) that are most important to the accomplishment of the mission or responsibilities of an assessable unit. Noncompliance with vital MCs would have undesirable impact on the accomplishment of the assessable unit's mission and responsibilities and require the management of that assessable unit to disclose this noncompliance, or its impact, to more senior management. Some MCs may be classified as "nonvital" because minor noncompliance would not have a significant impact on accomplishment of the mission or responsibilities of the assessable unit. However, noncompliance with nonvital MCs may become significant if the noncompliance is extensive enough to warrant disclosure of this noncompliance, or its impact, to more senior management. MCs may be considered vital at one organizational level, but not at another or more senior level. Classification of MCs as vital or nonvital is a management judgment that is subject to review by members of the

audit community. Every assessable unit has MCs that should be classified as vital for that specific unit.

E3. ENCLOSURE 3

GUIDANCE IN APPLYING THE DEFINITION OF MATERIAL WEAKNESS

E3.1. A MATERIAL WEAKNESS MUST SATISFY TWO CONDITIONS:

E3.1.1. It must be a condition in which MCs, or compliance with them, do not provide reasonable assurance that the objectives of the MC Program are being met. In effect, the weakness results from MCs that are not in place, not used or not adequate.

E3.1.2. It must be a condition that requires the attention of the next higher level of management. As with many other aspects of this program, whether a weakness is material enough to warrant reporting to a level higher than that at which it was discovered shall always be a management judgment. Fundamentally, managers should consider reporting a weakness to the next higher level if the participation of management at a higher level is required to help resolve the problem or, although the problem can be resolved at the lower level, it is serious enough, in the judgment of the manager with the control weakness, to bring to the attention of higher level management as a point of information. The additional yardsticks provided in sections E3.2. and E3.3., below, are provided to help managers understand the concept of materiality and are not intended to be determinants of materiality.

E3.2. DISCUSSION OF MATERIAL WEAKNESS DEFINITION IN SECTION E3.1., ABOVE

E3.2.1. A material weakness in the DoD system of MCs may be due to lack of an applicable control, or more frequently, inadequate compliance with existing controls. These controls deal with all program, operational and administrative functions; they are not limited to financial or accounting matters. Because of the size and diversity of the Department of Defense, material weaknesses are considered at the following four levels:

E3.2.1.1. DoD Level. When a weakness is serious enough to merit OSD attention or exists in a majority of DoD Components.

E3.2.1.2. Component Level. When a weakness exists with unacceptable frequency throughout the DoD Component, or at one installation and/or activity requiring DoD Component Head attention.

E3.2.1.3. Major Command or Field Activity Level. When a weakness

requires the attention of the Office of the Head of a major command.

E3.2.1.4. Installation or Activity Level. When a weakness requires the attention of the Office of the Head of an installation.

E3.2.2. In addition to the basic characteristics of a material weakness described in section E3.1. and subsection E3.2.1., above, the final determination to categorize a MC weakness as material results from management judgment about the relative impact of the weakness. For example, scoring each of the following considerations as "significant" or "insignificant" might help a manager in determining whether the absence of or noncompliance with a control is a material weakness.

E3.2.2.1. Actual or potential loss of resources.

E3.2.2.2. Sensitivity of the resources involved.

E3.2.2.3. Magnitude of funds, property, or other resources involved.

E3.2.2.4. Frequency of actual and/or potential loss.

E3.2.2.5. Current or probable media interest (adverse publicity).

E3.2.2.6. Current or probable congressional interest (adverse publicity).

E3.2.2.7. Unreliable information causing unsound management decisions.

E3.2.2.8. Diminished credibility or reputation of management.

E3.2.2.9. Impaired fulfillment of essential mission or operations.

E3.2.2.10. Violation of statutory or regulatory requirements.

E3.2.2.11. Impact on information security.

E3.2.2.12. Deprived the public of needed Government services.

E3.2.3. Monetary value impact generally shall be considered material when the weakness has caused or might cause loss of control over a significant amount of resources for which an organization is responsible (including money, personnel, equipment, etc.)

E3.2.4. Open findings on MCs from any source, agreed to by management, are

candidates for a material weakness at the applicable level, until all corrective actions are complete.

E3.3. DETERMINING A MATERIAL WEAKNESS.

This determination is a management judgment as to whether a weakness meets the criteria discussed in sections E3.1. and E3.2., above. A higher or lower dollar threshold may be applicable in different contexts, depending on the nature and characteristics of the weakness, and the level in the organization that the problem is identified.

E4. ENCLOSURE 4

MC REPORTING CATEGORIES

E4.1.1. Research, Development, Test, and Evaluation. This covers the basic project definition, approval, and transition from basic research through development, test, and evaluation and all DoD and contractor operations involved in accomplishing the project work, excluding the support functions covered in separate reporting categories such as Procurement and Contract Administration.

E4.1.2. Major Systems Acquisition. Covers items designated as major systems and that are subject to the procedures of the Defense Acquisition Board, the Military Services acquisition review councils, or the Selected Acquisition Reporting System. DoD Directive 5000.1 (reference (q)) may be helpful when evaluating a weakness for inclusion in this category.

E4.1.3. Procurement. Covers the decisions to purchase items and services together with certain actions to award and amend contracts (e.g., contractual provisions, type of contract, invitation to bid, independent Government cost estimate, technical specifications, evaluation and selection process, pricing, and reporting).

E4.1.4. Contract Administration. Covers the fulfillment of contractual requirements including performance and delivery, quality control and testing to meet specifications, performance acceptance, billing and payment controls, justification for contractual amendments, and actions to protect the best interests of the Government.

E4.1.5. Force Readiness. Includes the operational readiness capability of combat and combat support (both Active and Reserve) forces, based on analyses of the use of resources to attain required combat capability or readiness levels.

E4.1.6. Manufacturing, Maintenance, and Repair. Covers the management and operation of in-house and contractor-operated facilities performing maintenance and repair of, and/or installation of modifications to materiel, equipment, and supplies. Includes depot and arsenal-type facilities as well as intermediate and unit levels of military organizations.

E4.1.7. Supply Operations. Encompasses the supply operations at the wholesale (depot and inventory control point) level from the initial determination of material requirements through receipt, storage, issue reporting, and inventory control (excluding the procurement of materials and supplies). Covers all supply operations at retail

(customer) level, including the accountability and control for supplies and equipment of all commodities in the supply accounts of all units and organizations (excluding the procurement of material, equipment, and supplies).

E4.1.8. Property Management. Covers construction, rehabilitation, modernization, expansion, improvement, management, and control over real and installed property, and facilities (both military and civil works construction). Includes all phases of property life-cycle management from determination of need through disposition. Also covers disposal actions for all materiel, equipment, and supplies, including the Defense Reutilization and Marketing System.

E4.1.9. Communications and/or Intelligence and/or Security. Covers the plans, programs, operations, systems, and management activities for accomplishing the communications and intelligence missions. Includes safeguarding classified resources but not peripheral assets and support functions covered by other reporting categories. Also covers the DoD programs for protection of classified information.

E4.1.10. Information Technology. This area covers the design, development, testing, approval, deployment, use, and security of automated information systems (using a combination of computer hardware, software, data or telecommunications that performs functions such as collecting, processing, storing, transmitting or displaying information) and other technologies for processing management information. This includes requirements for justification of equipment and software. DoD 7740.1-G (reference (r)) may be helpful when evaluating a weakness for inclusion in this category.

E4.1.11. Personnel and/or Organization Management. Covers authorizations, recruitment, training, assignment, use, development, and management of military and civilian personnel of the Department of Defense. Also includes the operations of headquarters organizations. Contract personnel are not covered by this category.

E4.1.12. Comptroller and/or Resource Management. Covers the budget process, finance and accounting, cost analysis, productivity and management improvement, and the general allocation and continuing evaluation of available resources to accomplish mission objectives. Includes pay and allowances for all DoD personnel and all financial management areas not covered by other reporting categories, including those in connection with OMB Circular A-76 (reference (s)).

E4.1.13. Support Services. Includes all support service functions financed from appropriated funds not covered by the other reporting categories, such as healthcare,

veterinary care, and legal and public affairs services. All nonappropriated fund activities are also covered by this category.

E4.1.14. Security Assistance. Covers management of DoD Foreign Military Sales, Grant Aid, and International Military Education and Training Programs.

E4.1.15. Other (Primarily Transportation). All functional responsibilities not contained in the previously noted categories (above), including management and use of land, sea, and air transportation for movement of personnel, materiel, supplies, and equipment using both military and civilian sources.

E5. ENCLOSURE 5

RESOURCES FOR DOD COMPONENT MC PROGRAM DEVELOPMENT

E5.1.1. Headquarters personnel responsible for the development of the MC Program for their organization are encouraged to draw from the suggested readings provided at section E5.1.3. (below). Drawing upon academic or other professionally developed and tested MC evaluation mechanisms for developing a MC evaluation strategy will assist management in establishing a process that will stand up to evaluation by any DoD authority assigned responsibility for assessing the quality of said strategy (most specifically, the audit community).

E5.1.2. Internal controls can only be effectively evaluated within an organizational context; therefore, the concept of identifying and subdividing an organization into assessable units appears to be most applicable. However, other substantial conceptual approaches may be considered if its use will provide the desired result. Individual DoD Components may employ any substantial strategy. However, that strategy should not isolate the program from other day-to-day management activities. The process should not be a limited, periodic exercise that lacks management participation or leaves the final assessment of the quality of MCs to non-management personnel.

E5.1.3. The following is a nonexclusive list of suggested readings (other authoritative sources may be used) that may be helpful in the development of an effective MC Program (the list is not an exclusive list):

E5.1.3.1. Arthur Andersen & Co., “Guide for Studying and Evaluating Internal Controls in the Federal Government,” Revised, August 1986

E5.1.3.2. Robert N. Anthony, John Dearden, and Vijay Govindarajan, “Management Control Systems,” Seventh Edition (Homewood, IL and Boston, MA, Irwin, 1992)

E5.1.3.3. Committee of Sponsoring Organizations of the Treadway Commission (COSO), “Internal Control - Integrated Framework,” Coopers & Lybrand, September 1992, Volumes 1 - 4

E5.1.3.4. Lawrence B. Sawyer, “Elements of Management-Oriented Auditing” (Altamonte Springs, FL: Institute of Internal Auditors, 1983)

E5.1.3.5. Hershel M. Anderson (et al.), edited by Grant W. Newton,

“Internal Reporting & Analysis,” Second Edition (Marina del Ray, CA: Malibu Publishing Company, 1984)

E5.1.3.6. Edited by Jacki Pritchard and Hazel Kemshall, “Good Practice in Risk Assessment & Management” (Bristol, PA: Jessica Kingsley Publishers, 1995)

E5.1.3.7. Dallas R. Blevins, “Internal Control: An Introduction” (Altamonte Springs, FL: Institute of Internal Auditors, 1991)

E5.1.3.8. William J. Showalter and Jo Ann S. Barefoot, “The Compliance Review Tool Kit: An Internal Control System for Auditing & Monitoring” (Chicago, IL: Probus Publishing Company, 1995)

E5.1.3.9. William E. Perry and Javier F. Kuong, “How to Test Internal Control and Integrity in Computerized Systems” (Wellesley Hills, MA: Management Advisory Publications, 1980)

E5.1.3.10. President’s Council on Management Improvement, Committee on Organization and Structure, “Streamlining Internal Control Processes and Strengthening Management Controls With Less Effort” (Washington, DC: Diane Publishing Company, 1985)

E5.1.3.11. Zabihollah Rezaee, CMA, “Implementing the COSO Report,” “Management Accounting,” July, 1994, pp. 35-37

E5.1.3.12. K. Raghunandan and D. V. Rama, “Management Reports After COSO,” “Internal Auditor,” August, 1994, pp. 54-59

E5.1.3.13. Wanda A. Wallace and G. Thomas White, “Reporting on Internal Control,” “Internal Auditor,” August, 1994, pp. 40-42

E5.1.3.14. Richard M. Steinberg, “Reaching Consensus: The GAO’s Acceptance of the COSO Report,” “Journal of Accountancy, September,” 1994, pp. 37-40

E5.1.3.15. Dana R. Hermanson and Heather M. Hermanson, “The Internal Control Paradox: What Every Manger Should Know,” “Review of Business,” Winter 1994, pp. 29-32

E5.1.3.16. Institute of Management Accountants, “Catalog of Publications,” 1996